RETAIL INDUSTRY LEADERS ASSOCIATION
Retail's Future…Educate, Innovate, Advocate

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Written Statement for the Record of

The Retail Industry Leaders Association

Submitted for the

House Ways and Means Committee

Hearing on Implementation of the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA)

April 21, 2005

On behalf of the Retail Industry Leaders Association, we welcome the opportunity to submit written comments for the record for this important hearing on the United States-Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), now coming before the Congress for implementation. We strongly support the DR-CAFTA agreement and urge swift Congressional passage of the implementing legislation.

By way of background, the Retail Industry Leaders Association (RILA) represents the nation's most successful and innovative retailer and supplier companies -- the leaders of the retail industry. As a sector, retail is the second largest industry in the U.S., employing 12 percent of the nation's total workforce and conducting $3.8 trillion in annual sales. RILA's retail and product supplier companies operate 100,000 stores, manufacturing facilities and distribution centers in every congressional district in every state, as well as internationally. They pay billions in federal, state and local taxes and collect and remit billions more in sales taxes. They are also leading corporate citizens with some of the nation's most far-reaching community outreach and corporate social responsibility initiatives.

RILA fully believes that passage of this agreement will:

- *benefit* the U.S. economy -- producers and consumers alike;
- *strengthen* freedom and security in our Hemisphere;
- *improve* working conditions;
- *activate* critically important textile-apparel-footwear provisions; and
- *enhance* the legal framework for retail and distribution services.

THE DR-CAFTA WILL BENEFIT THE U.S. ECONOMY – PRODUCERS AND CONSUMERS ALIKE

Central America and the Dominican Republic make up the second-largest U.S. export market in Latin America, behind only Mexico. U.S. sales in the region exceed $15 billion annually -- more than is sold to Russia, India and Indonesia combined – a result achieved in the *absence* of reciprocal trade liberalization. Upon full implementation of the agreement, U.S. goods will be able to enter the participating countries duty free. In fact, 80% of the commercial goods will become duty free once the agreement is implemented, with the rest phased out over a ten-year period. This will help to significantly increase U.S. exports of farm products, manufactured goods and services to the region. According to a report by the International Trade Commission on the economic impact of the agreement, once the agreement is fully implemented, exports will grow by nearly $2.7 billion.

In addition to increased benefits for U.S. exporters, U.S. importers and their customers will benefit from implementation of the DR-CAFTA as well. Most Central American products already enter the United States duty-free, under preference programs such as the Caribbean Basin Trade Partnership Act (CBTPA). Enshrining this treatment in an international agreement with reciprocal obligations will provide added commercial security as well as a firmer legal basis under WTO rules. This aspect of the FTA is in effect a tax cut targeted to those consumers who need it most.

THE DR-CAFTA WILL STRENGTHEN FREEDOM AND SECURITY IN OUR HEMISPHERE

Within recent memory, conditions in Central America have featured civil war, chaos, dictators, and Communist insurgencies. Today, the region is one of fragile democracies that need U.S. support. Elected leaders are embracing freedom and economic reform, fighting corruption, and supporting U.S. anti-narcotics and anti-terrorism efforts. But this positive momentum cannot be taken for granted. Opponents of reform in the region remain strong.

By implementing the DR-CAFTA, the United States can demonstrate its support for freedom, democracy, the rule of law, and economic reform in Central America. Doing so will bolster U.S. security in various ways. The new economic opportunities will reduce the pressures that help produce illegal narcotics activity and illegal immigration.

THE DR-CAFTA TAKES THE RIGHT APPROACH ON WORKING CONDITIONS

America's retailers are committed to careful supply chain management and high ethical standards of corporate conduct in international sourcing. This applies to products sourced in not just in Central America, but around the world. Our experience with the DR-CAFTA countries has shown that they share these values and high standards, including the field of labor rights. Their constitutions and national laws generally provide strong labor protections consistent with the International Labor Organization's four "core principles." Indeed, labor protections in these countries are largely in line with those in Morocco and Jordan, whose accession to the status of "FTA partner" gained overwhelming Congressional approval in recent years.

The DR-CAFTA will promote economic opportunities and growth that are likely to become powerful catalysts for improved working conditions in the region. Through capacity-building and dispute settlement, the DR-CAFTA will also address those circumstances where better enforcement of existing labor laws proves necessary.

THE DR-CAFTA'S TEXTILE-APPAREL-FOOTWEAR PROVISIONS WILL BENEFIT CONSUMERS AND PRODUCERS THROUGHOUT THE VALUE CHAIN

The textile and apparel product category is a hugely important component of U.S.-Central American trade, and retailers are committed to finding the best available combination of speed-to-market, product price, and quality of products for their consumers. U.S. consumers will benefit from several innovative DR-CAFTA provisions promoted by retailers to add needed flexibility to the outdated "yarn forward" rule of origin. Moreover, qualifying textile and apparel products are to be afforded immediate U.S. duty free treatment.

Retailers are also quite interested in the health of regional textile and apparel producers -- our valued suppliers. The DR-CAFTA is strategically designed to improve their competitive situation at a time when, following the expiration of global textile and apparel quotas, they face a formidable challenge from outside the hemisphere, most notably China. The DR-CAFTA will provide regional garment-makers – and their U.S. suppliers of fabric, yarn and other components – a boost in competing with Asian producers and will support an estimated 400,000 jobs in the DR-CAFTA countries and 700,000 jobs in the U.S. cotton, yarn, textile and apparel sectors.

In addition to benefits for textiles and apparel, there are significant benefits for footwear imports in the DR-CAFTA. A solid consensus in all segments of footwear manufacturing and retailing favors immediate duty-free treatment for footwear traded among the DR-CAFTA countries, excluding a few import-sensitive tariff lines. By delivering this outcome, the DR-CAFTA lays the groundwork for increased trade and investment in the footwear sector, supports retailer strategies designed to maintain geographically diverse sourcing options, provides substantial benefits to consumers, and poses no risk to U.S. footwear production.

THE DR-CAFTA ENHANCES THE LEGAL FRAMEWORK FOR RETAIL/DISTRIBUTION SERVICES

For the first time in a trade agreement, the DR-CAFTA addresses restrictions on distribution created through restrictive dealer protection regimes. Such regimes are prevalent in Central America today and have locked U.S. companies and products into inefficient, exclusive and effectively permanent relationships with local dealers regardless of performance. DR-CAFTA rules would require dealer distribution agreements to permit parties to terminate at the end of the contract or renewal period without indemnification. These rules will promote more efficient distribution for U.S. companies and products in the DR-CAFTA region.

THE DR-CAFTA, ONCE IMPLEMENTED, CAN BE IMPROVED OVER TIME

No FTA is perfect, and as with other FTAs, experience under the DR-CAFTA may reveal opportunities for useful adjustments in areas like rules of origin, accelerated tariff phase-out, *etc*. Some improvements may require the negotiated approval of all the DR-CAFTA parties; others may be of the type the United States can make unilaterally. The implementing legislation should establish a flexible and streamlined framework for making such adjustments over time, using available tools such as proclamation authority and consultation/layover.

RILA congratulates the Ways and Means Committee for turning its attention to this important agreement, and stands ready to assist as the implementation process moves forward. If you have any questions, please contact Lori Denham, Senior Vice President Policy and Planning, Paul T. Kelly, Senior Vice President Federal and State Government Affairs or Jonathan Gold, Vice President Global Supply Chain Policy.